

**STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769**

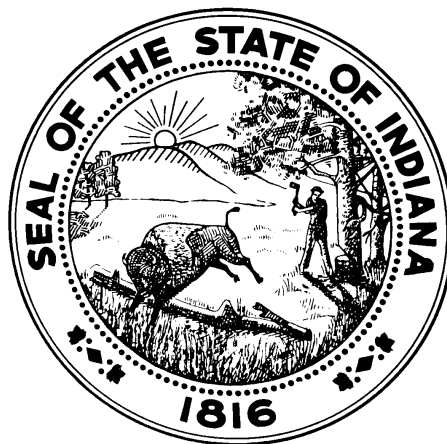
EXAMINATION REPORT

OF

CITY OF BRAZIL

CLAY COUNTY, INDIANA

January 1, 2007 to December 31, 2007



FILED
12/08/2008

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials	2
Independent Accountant's Report.....	3
Financial Information:	
Schedule of Receipts, Disbursements, and Cash and Investment Balances	4
Notes to Financial Information	5-6
Supplementary Information:	
Schedule of Long-Term Debt	7
Examination Results and Comments:	
Public Records Retention	8
Condition of Records	8
Overdrawn Cash Balances	9
Examination Report Opinion Modification	9
Exit Conference	10

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Mayor	Anthea A. Bradshaw	07-01-07 to 12-31-11
Clerk Treasurer	Tracy L. Webster Karen McQueen	08-31-04 to 12-31-07 01-01-08 to 12-31-11
President of the Board of Public Works and Safety	Anthea A. Bradshaw	07-01-07 to 12-31-11
President of the Common Council	Anthea A. Bradshaw James A. Sheese William Lovett	01-01-07 to 06-30-07 07-01-07 to 12-31-07 01-01-08 to 12-31-08
Superintendent of Water Utility	Richard E. Vanatti	01-01-07 to 12-31-08
Co-Superintendents of Wastewater Utility	Jerry D. Robison Terry L. Robison	01-01-07 to 12-31-08 01-01-07 to 12-31-08
Utilities Office Manager	Sheryl J. Hill	01-01-07 to 12-31-08



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE CITY OF BRAZIL, CLAY COUNTY, INDIANA

We have examined the financial information presented herein of the City of Brazil (City), for the period of January 1, 2007 to December 31, 2007. The City's management is responsible for the financial information presented herein. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial information presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In the prior examination, the condition of the City's records did not permit the application of our examination procedures to enable the examiners to render an opinion that financial information was fairly stated.

In our opinion, except that the lack of reliable beginning cash balances referred to in the preceding paragraph results in incomplete presentation, the financial information referred to above presents fairly, in all material respects, the financial information of the City for the year ended December 31, 2007, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

The Schedule of Long-Term Debt, as listed in the Table of Contents, is presented for additional analysis and is not a required part of the basic financial information. It has not been subjected to the examination procedures applied to the basic financial information and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

October 15, 2008

CITY OF BRAZIL
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL, PROPRIETARY, AND FIDUCIARY FUND TYPES
As Of And For The Year Ended December 31, 2007

	Cash and Investments 01-01-07	Receipts	Disbursements	Cash and Investments 12-31-07
Governmental Funds:				
General	\$ (778,071)	\$ 3,175,250	\$ 2,571,870	\$ (174,691)
Motor Vehicle Highway	(23,866)	481,409	477,867	(20,324)
Local Road and Street	120,825	37,753	90,137	68,441
Park and Recreation	(56,774)	244,825	213,616	(25,565)
Cemetery	(16,917)	74,675	30,503	27,255
Rainy Day	(28)	-	-	(28)
General Obligation Bond	(47,876)	116,758	75,534	(6,652)
Redevelopment District Bond	9,763	92,350	70,731	31,382
Park and Recreation Nonreverting	17,320	6,843	16,622	7,541
Police Bike	19	-	-	19
Economic Development	22,039	-	-	22,039
Emergency Response Team	(2,306)	-	-	(2,306)
Police Education	5,976	5,855	6,730	5,101
Police Grant	11,106	20,915	12,888	19,133
Police Deferral	48,378	20,460	51,424	17,414
Unsafe Buildings	5,060	1,029	320	5,769
Police Safety	2,471	-	-	2,471
Fire Education	156	-	-	156
Cumulative Capital Improvement	102,733	553,759	651,495	4,997
Cumulative Capital Development	82,203	96,018	15,867	162,354
Sanitation	6,769	314,481	248,690	72,560
Golf	19,628	436,755	458,204	(1,821)
Payroll	(83,876)	171,321	97,768	(10,323)
Law Enforcement	4,273	2,510	3,816	2,967
Fire Equipment	2,161	47,774	43,110	6,825
Proprietary Funds:				
Water Utility Operating	50,838	1,085,679	1,091,451	45,066
Water Debt Service Reserve	91,702	8,423	-	100,125
Water Improvement	15,448	-	-	15,448
Water Customer Deposit	182,161	25,268	-	207,429
Wastewater Utility Operating	695,456	2,292,383	2,507,315	480,524
Wastewater Debt Service Reserve	1,064,346	289,917	-	1,354,263
Wastewater Construction	206	-	206	-
Due to City Sanitation	33,347	-	10,051	23,296
Wastewater Escrow	-	958	-	958
Fiduciary Funds:				
Fire Pension	486,463	253,735	527,164	213,034
Police Pension	206,060	92,424	234,949	63,535
Totals	<u>\$ 2,277,193</u>	<u>\$ 9,949,527</u>	<u>\$ 9,508,328</u>	<u>\$ 2,718,392</u>

The accompanying notes are an integral part of the financial information.

CITY OF BRAZIL
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The City was established under the laws of the State of Indiana. The primary government operates under a Council-Mayor form of government and provides the following services: public safety (police and fire), highways and streets, culture and recreation, public improvements, planning and zoning, general administrative services, water, and wastewater.

Note 2. Fund Accounting

The City uses funds to report on its cash and investments and the results of its operations on a cash basis. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Note 3. Budgets

The operating budget is initially prepared and approved at the local level. In addition, funds for which property taxes are levied or highway use taxes are received are subject to final approval by the Indiana Department of Local Government Finance.

Note 4. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the District in June and December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the District on or prior to December 31 of the year collected.

Note 5. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

CITY OF BRAZIL
NOTES TO FINANCIAL INFORMATION
(Continued)

State statute (IC 5-13-9) authorizes the City to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Note 6. Pension Plan

Public Employees' Retirement Fund

Plan Description

The District contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system, and give the District authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of PERF.

CITY OF BRAZIL
SUPPLEMENTARY INFORMATION
SCHEDULE OF LONG-TERM DEBT
December 31, 2007

The City has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental Activities:		
Bonds payable:		
General obligation bonds:		
Sidewalk and curb improvements	\$ 620,000	\$ 45,000
Sidewalk and curb improvements	<u>675,000</u>	<u>45,000</u>
Total governmental activities debt	<u>\$ 1,295,000</u>	<u>\$ 90,000</u>
Business-type Activities:		
Wastewater Utility		
Revenue bonds:		
Improvements	<u>7,710,000</u>	<u>345,000</u>
Total Wastewater Utility	<u>7,710,000</u>	<u>345,000</u>
Total business-type activities debt:	<u>\$ 7,710,000</u>	<u>\$ 345,000</u>

CITY OF BRAZIL
EXAMINATION RESULTS AND COMMENTS

PUBLIC RECORDS RETENTION (CITY)

Accounts payable vouchers (claims) were not presented for examination. All claims, vouchers, and invoices had been inadvertently destroyed, requiring alternative examination procedures.

Indiana Code 5-15-6-3(f) concerning destruction of public records, states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

Supporting documentation such as receipts, canceled checks, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CONDITION OF RECORDS (CITY AND UTILITIES)

The following deficiencies, relating to the recordkeeping, were present during our period of examination:

- (1) Record balances were not reconciled to depository balances during the examination period. A Certified Public Accounting firm was hired in 2008 to reconcile records to date.

Indiana Code 5-13-6-1(e) states in part: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

- (2) There were a considerable number of posting errors. These errors included checks and receipts not recorded in the proper amounts, interest not posted, actual check numbers that differed from recorded check numbers, and funds in the ledger that show nonexistent balances.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF BRAZIL
EXAMINATION RESULTS AND COMMENTS
(Continued)

OVERDRAWN CASH BALANCES (CITY AND UTILITIES)

The cash balance of the General Fund, Motor Vehicle Highway Fund, Park and Recreation Fund, General Obligation Bond Fund, Emergency Response Team Fund, Golf Fund, and Payroll Fund were materially overdrawn at December 31, 2007.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

EXAMINATION REPORT OPINION MODIFICATION (CITY AND UTILITIES)

In the prior three reports of the City of Brazil, Reports B26092, B28563, and B30983, the State Board of Accounts issued a disclaimer of opinion on the Independent Accountant's Report for the financial statements. Based on these opinions, the beginning balances could not be verified, resulting in a qualified opinion for the 2007 report.

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Auditors Report on the financial statements may have adverse financial consequences with the possibility of an increase in interest rate cost to the taxpayers of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF BRAZIL
EXIT CONFERENCE

The contents of this report were discussed on October 15, 2008, with Tracy L. Webster, former Clerk-Treasurer; and Anthea A. Bradshaw, Mayor. The officials concurred with our findings. Karen McQueen, current Clerk-Treasurer; Sheryl J. Hill, Utilities Office Manager; and William Lovett, President of City Council, also attended.